



August 10, 2015

Ex Parte

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: Connect America Fund Docket No. 10-90

Dear Ms. Dortch:

On August 6, 2015, B. Lynn Follansbee and Jonathan Banks of USTelecom-The Broadband Association, Mike Romano of NTCA – The Rural Broadband Association, Genny Morelli of ITTA-The Voice of Mid-Sized Communications Companies, Derrick Owens of WTA-Advocates for Rural Broadband and Chad Duval of Moss Adams (via telephone), met with Carol Matthey, Alex Minard, Joe Sorresso and Christopher Cook of the Wireline Competition Bureau, as well as Amy Bender, Legal Advisor for Commissioner O’Rielly, Daniel Alvarez, Legal Advisor to Chairman Wheeler and Rebekah Goodheart, Legal Advisor to Commissioner Clyburn.

The subject of discussion at the meeting was the status of industry efforts to come up with technical assumptions for a preliminary bifurcated approach as has been suggested by the Federal Communications Commission in prior notices.¹ It should be noted that, at this point, no association specifically yet endorses the approach outlined in the attached, but the materials are being provided simply to aid in identification and discussion of issues that may require further examination and resolution arising out of such an approach. The attached outline represents the substantive items discussed at the meeting.

¹ *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051 (2014).

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Please contact the undersigned should you have any questions.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION

A handwritten signature in blue ink, reading "B. Lynn Follansbee".

By: _____

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Potential Rate-of-Return USF Support Approach As Discussed with the FCC

SUMMARY: This preliminary straw man begins to outline a “bi-furcated” approach to modernizing USF support provided to rate-of-return companies as has been suggested by the Federal Communications Commission in prior notices.¹ This approach has not been fully defined or modeled, and thus does not represent a fully-formed proposal that has been vetted by or is necessarily supported by industry representatives; some of the associations also have continuing questions and some concerns about issues that may arise in connection with such an approach. In addition to evaluating the actual workings and impacts of such an approach, some of the important threshold questions still requiring consideration include: (a) possible effects on rates for consumers who take a combination of voice and broadband in the future; (b) possible effects on rates for consumers who purchase voice service only going forward; and (c) possible effects on separated costs and state universal service funds. But the associations provide these thoughts on possible implementation of such an approach in good faith and in the interest of facilitating a complete but timely discussion of all possible reform alternatives.

In this case, we assume that “bi-furcated” means that qualifying network investments made as of a date certain (the “Date Certain”) and associated expenses would be recovered using the current HCLS and ICLS programs, while new network investments incurred on or after that Date Certain and associated expenses would be recovered using a new ICLS-like mechanism. The reforms would also need to include modifications to support investments incurred prior to that Date Certain and associated expenses that are associated with data-only broadband lines and which, to date, have been excluded from universal service recovery.

Assumptions of the Approach:

- Investments made prior to the Date Certain and the associated operating expenses would continue to be recovered via HCLS and ICLS. This would allow the continued recovery of past investments and associated expenses via those mechanisms.
 - Loop costs remain as defined in current rules.
 - Operating expenses follow investment per current rules.
 - These old loop costs would continue to be assigned 25% interstate for voice only and voice-data services and 100% interstate for broadband-only services.
 - Some modifications to the Rural Growth Factor and the resulting HCLS support cap may need to be considered and tested to address the winding-down of HCLS.
 - The National Average Cost per Loop may need to be adjusted on an individual company basis as new investments are made and associated operating expenses are allocated to the new recovery mechanism over time.
 - ICLS cost recovery would not change, although changes may be needed with respect to the Subscriber Line Charge on an individual company basis as new investments

¹ *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051 (2014).

are made and associated operating expenses are allocated to the new recovery mechanism over time.

- Support under HCLS and ICLS would continue until the affected assets are no longer in service and there are no more associated expenses to be recovered via those existing mechanisms.
- Because HCLS and ICLS do not permit recovery of costs associated with Data Only Broadband services, changes would be needed to provide for recovery of such costs where such services are provided via investments made prior to the date certain and associated expenses. The precise nature of enabling sufficient recovery of such costs requires further review, vetting and testing.
 - One option for doing so may be to update HCLS and ICLS to allow simply for the recovery of such costs in the same way that would be permitted if voice service were provided on the supported loop.
 - Another potential option to address this issue could involve: Current return on the broadband-only rate base (local loop investment currently assigned to data-only broadband, an allocation of general support assets, and depreciation reserves) plus operating expenses, and taxes will make up the Broadband Revenue Requirement (Broadband RRQ).
 - These amounts will be moved from Special Access, where they are assigned today, to Common Line.
 - Support will equal the Broadband RRQ less a Broadband Benchmark amount. The broadband benchmark is not an end user charge but rather the level above which service is considered to be high cost. It can also be used for capping purposes to make sure support does not exceed the budget.
 - Support will continue until the affected assets are no longer in service.
- New Network Investments made on or after the Date Certain and Associated Operating Expenses
 - Loop costs associated with investment after the Date Certain would go into a new support mechanism. These new loop costs would be assigned 100% interstate, including voice only and voice-data loop costs.
 - Expenses eligible for support would include all local loop cable and wire facilities consistent with current definitions therefor. Other network elements that might be considered for eligibility for USF support could include associated electronics deployed to provide broadband-capable networks.
 - Another alternative with respect to making additional costs eligible for cost recovery could be to also include DSLAMs or DSL line cards, which are currently assigned to DSL Transmission and are not supported through USF, but the impact to support and special access of including any such additional costs needs to be determined.
 - New Network Revenue Requirement would include the above investments as well as the associated reserves and operating expenses assigned or allocated through the standard operation of Part 36 and Part 69 separations.
 - The components of the New Network Revenue Requirement would be wholly interstate and assigned to the Common Line element.

- Support will equal the New Network Revenue Requirement less a Network Benchmark amount. The Network Benchmark is not an end user charge but rather the level above which the costs of providing service over the supported network are considered to be high cost.
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- The rate of new investment on or after the Date Certain and associated operating expenses going into the new mechanism would vary by company. For example, a company that completed its FTTP deployment in 2015 would have little loop cost in the new mechanism for decades, while a company just beginning its FTTP deployment in 2016 would have a more rapid increase in loop costs in the new mechanism.
- For this reason, benchmarks applied to network connections and customer lines would need to be prorated on a company-specific basis over time based on the relative percentage of loop costs each company has associated with investments and associated expenses associated with the period prior to the Date Certain as compared to those associated with investments and associated expenses attributable to the period on or after the Date Certain.
 - This will result in each company having different benchmarks each year in each of HCLS, ICLS, and the new mechanism.
 - Current “benchmarks” are the \$6.50/\$9.20 SLCs for ICLS and the \$647.87 frozen NACPL for HCLS; assume for initial discussion purposes solely that the new mechanism benchmark is \$42.00.
 - For example, in 2018 if a company has 80% of its loop cost in old and 20% in new, its 2018 bifurcated benchmarks will be \$5.20/\$7.36 for ICLS, \$518.30 for HCLS and \$8.40 for the new mechanism (representing 80% of the “old” benchmark and 20% of the “new” benchmark).
 - If another company has 60% of its loop costs in old and 40% in new, its 2018 benchmarks will be \$3.90/\$5.52 for ICLS, \$388.72 for HCLS and \$16.80 for the new mechanism.
- The SLC benchmarks will continue to be billed per current rules modified for adjustment as noted above. The imputed revenue associated with the new mechanism benchmark will be billed via existing special access rates. Voice-data and broadband only service high cost support provided using old investment will equal the sum of ICLS and HCLS per voice line. New Network support will be subtracted from Interstate special access revenue requirement prior to setting rates. New mechanism support will be estimated and trued up similar to current ICLS rules.
- New network capital investment and operating expenses may be limited based on a manner to be determined in this proceeding. The approach is flexible enough to adopt any proposed capital budget mechanism as well as any capex and/or opex limits put in place.

- Total Universal Service Support =

HCLS (existing mechanism for existing investments and associated expenses)

+ ICLS (existing mechanism for existing investments and associated expenses)

+ Some means of providing support for broadband-only lines associated with existing investment and associated expenses

+ New Network Support (new mechanism for new investments and associated expenses)